

Members

Tom Reilly, Chairperson
Phil Faccenda
Terry White



GOVERNMENT EFFICIENCY COMMISSION SUBCOMMITTEE ON HIGHER EDUCATION

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MEETING MINUTES¹

Meeting Date: July 13, 2004
Meeting Time: 10:00 A.M.
Meeting Place: 101 W. Ohio Street, Suite 550
Meeting City: Indianapolis, Indiana
Meeting Number: 6

Members Present: Tom Reilly, Chairperson; Terry White.

Members Absent: Phil Faccenda

I. Call to Order and Attendance: The meeting of the Higher Education Subcommittee was called to order by Chairman Tom Reilly at 10:00 a.m., July 13, 2004, in the offices of the Indiana Commission for Higher Education, 101 West Ohio, Suite 550, Indianapolis. In attendance were subcommittee member Mr. Terry White and advisory directors Mr. Tim McGinley, Dr. Ernest Bartell, and Dr. Gus Watanabe. Also in attendance were Commissioner for Higher Education Stan Jones, designated staff advisor to the subcommittee, and Dennis Jones and Aims McGuinness from the National Center for Higher Education Management Systems.

II. Work Plan for the Meeting

Chairman Reilly laid out the work plan of the committee for the day. He explained that copies of the working paper submitted by NCHEMS would not be handed out as they did not yet reflect the committee's opinions. His assumption was that NCHEMS would revise the paper based on the meeting's discussion and send out a new draft in several weeks. He also noted that he would be giving a status report to the chairs of the full Efficiency Committee on August 2.

The work plan for the meeting was laid out as follows:

1. No stylistic issues would be addressed;
2. The subcommittee would move straight through the principal parts of the paper;
3. The subcommittee would discuss issues that were absent from the draft report;
4. The subcommittee would pay particular attention to the following:
 - a. understanding IUPUI;

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- b. how institutions can better serve their local communities;
- c. the nature of research institutions and how research issues should be addressed;
- d. tuition policies, particularly in light of the newly created affordability task force; and
- e. state governance and the role of the Commission for Higher Education.

Chairman Reilly stated that he wanted the subcommittee to develop a format in which certain issues are easily understood. He suggested two “pillars” of such a format:

- 1. research and its role in economic development, without limiting discussion to central Indiana; and
- 2. Indiana’s need for a better community education system—not limited to community colleges.

III. Discussion of the Subcommittee’s Goals

Mr. McGinley asked the chairman to review the subcommittee’s goals and responsibilities. He suggested that the draft report was a very broad report that would restructure higher education and expressed concern that the subcommittee was going beyond its original charge.

Chairman Reilly reviewed NCHEMS’s findings that none of the institutions are particularly inefficient compared to their peers and reiterated earlier conclusions that Indiana suffers from systemic inefficiency related to the large enrollments of the research universities. He stated that the charge to the subcommittee is to determine whether or not Indiana’s system of higher education is structured properly. Furthermore, he noted, the subcommittee was addressing an effectiveness question; namely, could the system of higher education better serve citizens at every level? He contended that there are many opportunities for greater service and contributions to the state and its economy at every level.

Chairman Reilly continued, saying that NCHEMS believes Indiana’s system can be restructured to be better with no additional funding, and making the system better for no additional money is the grand philosophic way of answering the question about the subcommittee’s goals and responsibilities.

Mr. McGinley responded that he was not fully sure of the genesis of the efficiency commission, but that part of the charge was to do what we are doing for less money. He expressed concern that the subcommittee was going to report that it had no savings to offer but that it wanted to initiate an elaborate restructuring.

Dr. Bartell agreed that there was fuzziness to the subcommittee’s task. He suggested that once the subcommittee went beyond peer analysis of individual institutions, the implications were very great. He also noted that he was uneasy about the subcommittee’s consideration of tuition policies.

Chairman Reilly responded that the state needs to know if it is getting Chevrolets at Cadillac prices.

Dr. Bartell said that the subcommittee needed to avoid spurious external criticism, and that this might be accomplished by explicitly repeating assumptions about quality, trade offs, and the various sectors of higher education. Any final report will need to be worked over keeping in mind readers who are not inculcated in the language of higher education.

Chairman Reilly agreed, and added that a very good introduction would need to be part of the final report.

Mr. White told the subcommittee that he had a more simplistic view of their mission. Initially, he said, the commission was established as a way to try to save money. Thus far, the subcommittee had concluded that the institutions are not particularly inefficient. Now, the subcommittee has turned to the best way to deliver services. In doing so, Mr. White reported that he found that the Commission for Higher Education has no teeth, and that although Indiana has fine institutions of higher education, they are too decentralized. He believes that Indiana needs a system with a little more central control.

IV. Centralization and Coordination

Chairman Reilly suggested that the subcommittee may as well consider the issue of centralization as it had been raised. The question, he noted, is how to create a system that doesn’t overly shackle institutions but does provide a rational distribution of resources. Each institution has political ties, be it

from alumni or people on the payroll. What are the components of a rational central body? How can a rational body be created that avoids more politics? Would a Board of Regents be beneficial?

Mr. Jones responded that in NCHEMS's experience, many different structures can help you get where you are going. The more important thing is to focus on broad issues of what needs to be accomplished. A state public agenda for higher education needs to be established. First, the needs of the state need to be laid on the table, then internal mechanisms can be created. The best states have a mechanism to create consensus, not a hierarchy. Mr. Jones continued that in the end, there is nothing more powerful in a state than its legislature, and nothing can be set up to prevent them from changing or rearranging structures. More important than structure is a process that revisits the conversation about the public agenda each year.

Mr. McGuinness added that Indiana will be in serious trouble without a way to agree upon and sustain an agenda. Indiana cannot simply do everything in an ad hoc manner. He supported Mr. Jones's comments as well, agreeing that policy choices will ultimately be made by legislatures and that some way is needed to build a consensus and sustain it. States need to look at their cultures and decision making processes. Indiana higher education has been driven by the political strength and influence of IU and Purdue. IU and Purdue deliberately developed a political network that cancelled development of community colleges.

Mr. McGuinness also remarked that more important than structure is how a system is financed. The basic financing mechanism is normally the root of development. Indiana's problem is much greater than the difference between a commission and a board of regents; Indiana needs to develop a long-term higher education agenda.

Chairman Reilly sought to return to Mr. White's point about firm recommendations. He stated that he has never ceased to be disappointed by the lack of farsightedness in Indiana. The state needs something more than a written statement.

Mr. McGuinness responded that the state needs a leadership group composed of business and civic leaders that is consistently in place in the highest levels of the state. You can form a different bureaucracy, but you need a real leadership group of deeply committed people. This role probably cannot be fulfilled by the Commission for Higher Education.

Chairman Reilly asked Mr. McGuinness what he meant by an earlier statement that Indiana is in trouble.

Mr. McGuinness responded that in part he meant the structural deficit, but that he was also referring to higher education; that he had been around the state and believed that the combination of higher education sectors is the most important driver of communities' futures. Higher education is very important in every region of the state.

Mr. White stated that if we can't take politics out of higher education, we can't effect change. The public institutions are in competition with each other for students. Indiana has an intrinsic, systemic problem in vying for funding. The state needs some objective body. Why not focus on the Commission for Higher Education? Why can't the CHE make some hard decisions that may be unpopular?

Dr. Bartell suggested that the differences he was hearing may not be so great. In fact, the discussion sounded very similar to discussions in which he was involved concerning new democracies in Central and South America. In developing democracies, the favorite buzzword is building coalitions.

Mr. McGuinness replied that there are fundamental differences between coordinating a system and building a public agenda. Indiana does not need another entity running a governing board; it needs a consensus on a public agenda that goes beyond institutional survival. If the Commission were changed to focus on building statewide coalitions to take the place of legislative logrolling, higher education would be better off.

Chairman Reilly noted that the Commission does a lot of coalition building today, but is too hung up in degree approvals and no one who counts listens. The Commission moves things forward incrementally.

Mr. McGuinness replied that the Commission's regulatory functions should not be displaced, but Indiana needs an entity with teeth that can say something is wrong. No entity like the Commission can accomplish things by regulation alone.

Chairman Reilly suggested an entity “with hair on its chest,” composed of people with gravitas. He continued to believe that the entrenched interests would cut down anything else.

V. Major Research Universities

Chairman Reilly shifted the discussion to major research universities, commenting that the two major research universities are the key to Indiana moving forward. Both need to become national universities, able to compete at the highest level. Both are very healthy and already “privatized” to some degree. He mentioned that President Jischke wants to be freed from bureaucracy and offered tuition flexibility as an example. Chairman Reilly held that it is time to “unleash the two great monsters,” and that they will be hamstrung as long as they are tied to the other institutions. The two major research universities should be let go, and then a central body should be given more influence over the other institutions.

Mr. White responded that the state can’t just give them money and let them go on their way.

Mr. Jones remarked that one problem in Indiana is that the Commission for Higher Education lacks any resources of its own to invest, and that a Commission without money is a Commission without power. Marginal investments need to be made in areas targeted by the state.

In addition, Mr. Jones advocated compacts between the institutions and the state. These would include an understanding that the following would be done by the institutions and the state. He emphasized that the agreements would be compacts, not contracts. Up till now, money for institutions in Indiana has simply been laid on the table with no agreement on what ought to be achieved with it.

Mr. McGuinness added that Indiana needs a Commission with stronger membership, goals connected to the budget, and multiyear agreements. The Commission role is to be advisory, but with accountability responsibilities.

Dr. Bartell suggested that the institutions should be allowed to have private foundations to help them chase national recognition, and added that it was a plus that Indiana has two AAU member institutions in a constrained state.

Mr. McGinley stated that he was skeptical of increased governmental controls and centralization. Furthermore, the assumption that IU Bloomington and PU West Lafayette can dramatically raise tuition runs right into the face of political reality. He mentioned that the PU Board of Trustees has received letters from the governor recommending certain tuition levels three years in a row.

Also, referring to the NCHEMS draft report, Mr. McGinley said that it was not clear to him how a reduction in undergraduates at IUB and PUWL would be divided up. Did the draft mean a reduction in resident undergraduates or all undergraduates? He noted that losing 3,300 resident undergraduates would drop PUWL to 60 percent resident students, and that replacing those 3,300 with nonresidents would make PUWL 50 percent nonresident.

In addition, reducing the entire student body would create problems. Nonresident students provide an economic benefit, and reducing their numbers would be a bad deal for research universities. Furthermore, he contended, there is not enough market information to support the tuition increases suggested in the NCHEMS report; it simply assumes students will pay the higher price. Also, half of the graduate students at Purdue don’t pay tuition. Finally, Mr. McGinley reiterated that telling families their children can’t attend IU and Purdue will generate significant political reactions, and that reality has to be taken into account.

Chairman Reilly responded that when he said “unleash,” he meant “unleash.” Boards would manage the universities with little outside interference except for the compacts. They would be giving up some security, but would develop their cash flow from sponsored research.

Mr. McGinley questioned how free of outside influence the institutions could be. He said that the legislature would put great pressure on the universities if the resident/nonresident mix was 50/50. He pointed out that Purdue also has a land grant mission, and that it can’t cut out students. He also reiterated that one cannot assume that students will just pay anything.

Dr. Bartell suggested that IU Bloomington and PU West Lafayette be allowed to test the market like

private universities. The University of California at Berkeley and the University of Michigan are hybrids.

Mr. McGuinness responded that NCHEMS has had the same conversations in Virginia. The basic idea is an agreement in which you work out Purdue's future and how the state figures into that calculus. Mr. McGuinness also compared Ireland's economy and higher education system with Indiana's.

Mr. McGinley returned to the issue of shrinking enrollment and replacing residents with nonresidents.

Mr. Jones responded by working through the assumptions used in the example to which Mr. McGinley referred:

1. The model deals with tuition revenue, not tuition rates. It does not assume the same increases for all students;
2. Dropping the student population by 3,300 was achieved by losing 5,000 undergraduates and gaining 1,700 graduate students;
3. The example does not suggest replacing residents with nonresidents, and it does not suggest decreasing the total amount of revenue received. It would, however, allow internal reallocations.

Mr. McGinley repeated that decreasing enrollment would be a huge issue if Purdue were to drop below 70 percent Hoosier students.

Mr. McGuinness returned to Virginia as a model. The University of Virginia and the state agreed on a certain percentage of resident students. This is resulting in an increase in selectivity. Part of the agreement with the state is that greater selectivity at the university is in the state's interest.

Chairman Reilly contended that greater selectivity at the major research universities is critical to getting them where they need to be, and he spoke of his experience on the Butler University Board of Trustees. At Butler, an increase in student quality was followed by an increase in the quality of the faculty.

Mr. Jones stated that Indiana does not have enough range in tuition between Ivy Tech and the research universities. As a result, the most well-off students in Indiana get the biggest subsidy.

Dr. Bartell responded that Mr. Jones's example was true across the country and that we need strong financial aid programs. The situation reminded him of Latin American countries, where the wealthiest children get the biggest subsidy to their education.

Chairman Reilly replied that Indiana needs to reallocate money to need-based student aid.

Mr. McGuinness agreed, but stated that tuition at two-year institutions must also be kept low.

Mr. Jones responded that tuition needs to be discussed in systemic terms, and Mr. McGuinness added that all institutions need flexibility to pursue their missions.

Dr. Watanabe stated that the subcommittee could use the concept of unleashing, but that the research universities could not be totally unleashed. They live within the confines of the market and politics. Some changes will happen incrementally; we have to recognize the constraints under which institutions live.

Dr. Bartell noted that the cost of faculty is a big problem; it is a fixed, not a variable, cost. We can't do all things at once. Low tuition requires high student contact hours, which prevents research. In the best research universities, teaching loads are low, and the best undergraduates participate in research. Dr. Bartell stated that chances are that IU faculty have higher teaching loads than faculty at other research institutions. He added that facilities are also an issue for a plan like that suggested by NCHEMS; the research universities have lots of dorm space that might not be filled with a smaller student body.

VI. Preliminary Conclusions on Coordination and Major Research Universities

Chairman Reilly suggested that the subcommittee conclude its discussion on coordination and major research universities. The report should suggest that the Commission for Higher Education have "more teeth," that it should be a depoliticized group with an Olympian and long-term view and have the power of persuasion.

Mr. White suggested that the report should also address independent colleges and universities and the need to collaborate with them. He suggested that compacts could also be created for independent institutions.

Chairman Reilly stated that for the major research universities, the final report should call for compacts to be developed. Part of the compacts should be that the universities become great research universities.

Mr. McGuinness added that the section on major research universities needed to apply to the Bloomington and West Lafayette campuses; it would not apply to the Indiana University and Purdue University regional campuses.

VII. Discussion of IUPUI

The subcommittee next turned its attention to IUPUI. Chairman Reilly characterized the institution as one of the most interesting animals you could deal with. It is an integral part of IU finances, part of the Indianapolis economic development engine, and a huge urban university that provides community college services while displaying momentum toward becoming a full research university. If let loose, the campus may try to become the state's third major research university.

Mr. Jones stated that in terms of cost effectiveness and best service to the state, IUPUI should:

1. get out of the community college business and improve relations with Ivy Tech;
2. be viewed as an urban research university with strength in medicine and related disciplines;
3. have its strengths defined by the city of Indianapolis; i.e., focus on professional schools and the needs of the city;
4. probably not develop a wide array of Ph.D. programs except where they are explicitly tied to Indianapolis' core economy; and
5. continue to be the primary undergraduate institution in Indianapolis, focusing on adult, place-bound, part-time students.

Mr. McGuinness suggested that the two-way relationships with IU Bloomington and PU West Lafayette continue so that IUPUI's research capability remains connected to them. He acknowledged that faculty angst about Bloomington could have a negative effect on IUPUI, and stated that ambiguity about their relationship served no interests.

Mr. White questioned why the medical school would need any connection to IU Bloomington.

Dr. Watanabe explained that there is a great deal of complementary research between the two and a need for interaction and collaboration. The connection also avoids duplication of equipment.

Dr. Bartell inquired about the structural relationship between the two campuses.

Dr. Watanabe suggested that there is faculty angst in Bloomington due to major grants, such as the genomics project, to IUPUI, and he suggested that the report point out such issues and constraints.

Mr. White asked whether the IUPUI's relations to Purdue and IU Bloomington were the same at the undergraduate level as they are at the professional and graduate level.

Mr. Jones responded that even at the undergraduate level, IUPUI draws strength from IU and Purdue. From the students' perspective, the relationship is seamless. Governance issues are in the background, and there is no reason to change a governance structure that is working well.

Mr. McGuinness added that IUPUI is one of the very best examples of cooperation in the United States. He also said that IUPUI should not be held back in issues of world-class competitiveness. The medical school in particular needs to be world class. The report should also encourage the community college/IUPUI partnership.

Chairman Reilly suggested that one of the firm recommendations that should be in the report is that IUPUI no longer have a community college mission, and that the transfer of community college functions should be accelerated.

Mr. McGuinness stated that if Indiana is going to have a community college system, it needs a set of facilities that look like a college and feel like a college. Institutions should share facilities and libraries and may be able to share student services. Issues of institutional culture and perception are reinforced if they are not addressed. Community colleges should have a separate faculty and need not be merged, but there is no reason not to share facilities.

Chairman Reilly wondered whether IU Bloomington would be marginalized if IUPUI were to develop into a third major research university.

Mr. Jones responded that he didn't know how to lay down in front of a train successfully. Federal research funding is in health and biotechnology, and you can't tell IUPUI not to go after it. IU Bloomington will benefit in the fields where there are ties between the two and where collaboration increases.

Dr. Watanabe added that the legislature can't mandate where research funding grows. The Kinsey Institute shouldn't be duplicated by the school of medicine, and Bloomington is particularly strong in neuroscience. Areas grow by virtue of their scientific strength, but efforts do need to be complementary. Campuses shouldn't try to constrain other campuses.

Mr. McGuinness agreed that you can't regulate research by campus. You can, however, organize your finances to achieve your goals. One could put money in the center in an investment fund, using a market device to distribute the funds rather than regulation or letting institutions fight over the funding. You can't put all your money directly into institutions; if you do, you will have good institutions, but you may not reach your research goals.

Dr. Watanabe asked Mr. Jones if he had meant, in earlier remarks, that research at IUPUI should be tied to Indianapolis only.

Mr. Jones responded that that was not his intention, and that IUPUI should focus on medical, biomedical, and other research. Mr. McGuinness added that each region of the state needs to pick an area in which it wants to be globally competitive.

Chairman Reilly and Dr. Watanabe emphasized that they do not want to handcuff research institutions as there may be new areas of inquiry of which they are not yet aware.

The subcommittee adjourned for lunch at 12:30 p.m. and resumed discussions at 1:00 p.m.

VIII. Regional Relations and Community Colleges

Chairman Reilly resumed the discussion by asking how the regional campuses and community colleges could be made to work together for the good of their communities.

Mr. McGuinness noted that Ball State, Indiana State, and the University of Southern Indiana needed to be considered in such discussions as well. Each has a statewide mission, but each is also very important to its region. He singled out Northwest Indiana as perhaps the best region for institutional collaboration.

Mr. McGuinness continued by rating the connection between elementary and secondary education and postsecondary education a 2 on a scale of 1 to 10, though there are some good regions. He added that there is great variation in terms of economic development efforts as well, and held up Central Indiana as exceptional. All told, there needs to be a major emphasis on regional institutional connections to K-12 education and to economic development.

Mr. McGuinness stated that he was not proposing mergers or consolidations, and suggested that it would not serve the Northwest region well to combine IU Northwest, PU Calumet, and PU North Central.

Chairman Reilly stated that that conclusion needs to be emphasized as people think there is redundancy with the three campuses.

Mr. McGuinness raised the issue of financial incentives that would put a premium on collaboration between regional campuses and Ivy Tech.

Mr. Jones commented that each of the regions is very different, but that in each region communities and

community foundations are trying to break through institutional silos to foster collaboration. Lilly CAPE grants were singled out as particularly important. He concluded that communities were working harder than is necessary because they have to work crosswise against the vertical orientation of the institutions.

Chairman Reilly noted that NCHEMS had suggested funds to make collaboration happen and asked Mr. Jones and Mr. McGuinness if they were suggesting that local communities pick up 10 percent of the cost of community colleges. They responded that they hadn't said exactly that, but that local communities should match state funds for community college facilities.

Mr. McGuinness contended that private money may bring things together, but it does not sustain them. The state should require shared facilities, and that in state-funded facilities, not sharing should be unacceptable. Cultural snobbery, roads, and patterns of behavior have prevented sharing, though some chancellors are clearly being rewarded for collaboration.

Chairman Reilly asked NCHEMS to develop these ideas in greater detail in their next iteration, especially the incentives.

Mr. McGuinness replied that unless there is some blood on the table, collaboration won't happen, even with incentive grants. He also wondered how Indiana could keep building new facilities in some of the regions.

Commissioner Jones stated that he used to be naïve and believed institutions next door to each other could collaborate. After several years of experience, he now believes that the closer the institutions are to each other, the more they fight.

Mr. White suggested that the fighting might stop if the Commission for Higher Education had more teeth.

Mr. McGuinness added that how people are paid makes a big difference because people feel their livelihood is threatened. He also contended that if Ivy Tech is to become a community college, it needs the amenities and functions that will allow it to be seen as a college. Community colleges need very good student services and support and study spaces.

Chairman Reilly interrupted the discussion to say that NCHEMS would be returning in a couple weeks, and he hoped for an early draft of the revised report. He also selected August 23 as the next meeting date. The meeting will be held from 10:00 a.m. to 2:00 p.m. at the Commission for Higher Education office.

Chairman Reilly then asked Commissioner Jones if he would like to offer any comments.

Commissioner Jones replied that he had three comments.

1. reallocation of state appropriations is difficult to imagine;
2. Ivy Tech has been held down from the beginning; it's been the Cinderella of higher education that can't go to the ball without glass slippers. It has never had the resources to be a true community college; and
3. he did not want to be the one calling for more Commission authority. He noted that Indiana's institutions have less regulation than in almost any other state, and stated that Indiana needs to have a balance; it needs to be able to achieve state goals with institutional flexibility.

Chairman Reilly asked Mr. Jones and Mr. McGuinness if they had any observations to make regarding Ivy Tech.

Mr. McGuinness responded that as an external observer, he believed community colleges have had to struggle to get any attention in the state, and that in Indiana, as in other states, higher education institutions must work through statewide political coalitions to avoid being wiped out. Ivy Tech has made great strides, but still has a long way to go. He commented that it is not helpful for an institution to simply declare that it has met certain standards, and called attention to one of the recommendations that would set up an external validation system.

The basic NCHEMS recommendation is that Indiana should have first rate community college service in every region, that Ivy Tech should provide those services, and that the campuses should be regional

community colleges within a statewide system. Without a statewide system, the campuses would be picked apart. Mr. McGuinness also stated that it is “time to say grace over the body of the partnership” (referring to the Ivy Tech—Vincennes University partnership).

IX. Discussion of Potential Reallocations and Incentives

Chairman Reilly asked Mr. McGuinness if NCHEMS was talking about a reallocation of funds.

Mr. McGuinness said yes, the state should be subsidizing community colleges at a higher rate because:

1. people getting into research universities are more privileged;
2. there is a higher rate of return on a degree from a research university; and
3. people going to community colleges need more help.

Chairman Reilly stated that “Spartan” is a euphemism for Ivy Tech facilities. They need a major amount of money. The recommendation is that there be a reallocation at the same time that research universities are changing their missions and pursuing more outside funding. Can this be done without additional revenue?

Commissioner Jones noted that reallocation rarely happens, especially without a Board of Regents. Using marginal new dollars is easier and can get to the same place. He also noted that differential tuition is difficult to rationalize politically.

Chairman Reilly asked Commissioner Jones what he would do if there were no new state money. Commissioner Jones replied that he would end up giving no one anything.

Chairman Reilly pointed out that this would simply ensure the status quo. Commissioner Jones agreed, but said that practically, he had never seen reallocation happen. It is too tough politically.

Commissioner Jones suggested a ten-year plan, with new resources directed toward the goal.

Mr. White responded that what he heard was that no one wants to make tough decisions, and he said that is why the Commission for Higher Education needs more power and more insulation.

Dr. Bartell reminded the group that they had already discussed some sort of coalition; now that sounded like it would be called pie in the sky.

Mr. McGinley said that in North Carolina, the Board of Regents is a bad experience in which everyone moves toward the average. The better universities don’t want to lose control, though others might like it.

Dr. Bartell asked why Indiana is so different that it can’t implement a hybrid model like the rest of the country.

Chairman Reilly stated that we could chop \$200 million from higher education, and the universities would figure out how to live with it. Why say that the institutions can’t agree on anything?

Mr. McGuinness again raised the issue of incentive dollars for the Commission for Higher Education to be drawn from reallocation.

Mr. McGinley said that reallocation was a harsh approach. Why not incentivize people to do what you want them to? There are no incentive programs here; what about incentives for graduation and retention? This approach is too much stick and not enough carrot.

Dr. Bartell replied that the carrots would be baby carrots because the funds would be incremental.

Mr. Jones noted that NCHEMS was operating under the guidance of the group when it planned for no additional state money. As soon as that condition is set, differential tuition and a different allocation of funds are the only ways to operate.

Dr. Bartell agreed, stating that you must choose between reallocation or the status quo in a zero-sum game.

Commissioner Jones suggested a reallocation of 2 percent of operating appropriations each year for statewide purposes. Over ten years, all institutions would have reallocated 20 percent of their state funding.

Mr. McGuinness contended that the state would still need differential tuition, and asked whether the state budget committee could be helpful in implementing it.

Commissioner Jones responded that Indiana needs a tuition review process and plenty of time for families to plan for increases. We could put together a reasonable public process and external review.

Chairman Reilly said that he understood gradualization, but that we need to keep “unleashing” on the table along with gradual decreases in state funding. There are a million reasons why you can’t raise prices, but those are the wealthiest students, institutional aid is available, and we can reallocate.

Dr. Bartell added that need-based aid targets needy students. A 4 percent cap helps everyone, even those who don’t need it. An ideological commitment to a flat rate messes this up. Aren’t there enough people in the state who can make this case?

Mr. McGinley questioned the fairness of state assistance to students at independent institutions. Dr. Bartell responded that in fairness, then, include independent institutions in this process.

X. Conclusions

Chairman Reilly summed up his positions, saying that it is the chair’s position that the viability of the state rests on a greater degree of flexibility and privatization of the major research universities. Freedom and incentives will create great national institutions that will take care of the state. The goal is not to write a political report or throw this in people’s faces, but it needs to be done right.

Mr. McGinley contended that PU West Lafayette, IU Bloomington, and the School of Medicine need to lead the charge, but they are the ones getting cut in this proposal. Money would be taken out of the most prestigious, most productive institutions and be put into a broken system or other institutions. He said it sounded inconsistent to him.

Mr. McGuinness countered that NCHEMS was recommending a way to let the major research institutions generate the funds they need when they would otherwise be fiscally stunted. He added that it is not evident that the system is overly productive, and that it is not the case that IU Bloomington and PU West Lafayette would be the most productive.

Mr. McGinley disagreed and said NCHEMS was not looking at outputs.

Mr. Jones responded that as a state, Indiana is paying a lot for its level of performance. The major research universities have higher graduation rates, but they also have a much higher subsidy than the other institutions. Looking at research, Indiana’s major research universities don’t compare well either.

Mr. McGuinness reiterated that NCHEMS’s strategy was to increase resources for Purdue.

Mr. McGinley replied that he understood what they recommended, but that it is a risky strategy.

Mr. Jones laid out three strategies that had been raised:

1. more money;
2. 2 percent reallocation every year;
3. differential tuition, with more total funding for IUB and PUWL, but less state appropriations.

Commissioner Jones added that he would like to add tuition predictability to the recommendations—something like 4.5 percent each year. Over the long term, it would work out.

Chairman Reilly replied that he would accept notification and advice, but not caps. A brief discussion followed about the usefulness of caps tied to an index.

The meeting adjourned at 2:20 p.m.